



IEA: oil demand has surpassed supply

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The energy watchdog of the OECD countries, the International Energy Agency (IEA), recently started to talk about looming oil shortages. The high oil price of today will remain is the message they are spreading. We need to save more oil, invest more in increasing oil production and upscale alternatives. However, the IEA does not see a peak in worldwide oil production occurring in the coming decades. Based on the expectation that large amounts of oil will be discovered, not yet on the radar of oil companies worldwide. This new stance follows below from the translated transcript of [an interview recently broadcasted on the Dutch television channel RTL-Z](#) with Aad van Bohemen, the Director of Crisis Management at the IEA

What is the significance of the current crisis on the oil market?

“The situation on the oil market is worrisome in the sense of there being more demand than supply. This does not mean that we should panic because of an acute shortage of oil, there is sufficient oil in the world. There is production capacity that can be brought to the market by the oil producing countries. But this capacity should be brought to the market to meet supply. So the situation is on overall worrisome, but it is not yet time to panic.”

But if there is more demand then supply then stocks will decrease, how long can the west maintain this situation?

“This is indeed already happening for almost a year. A year ago OPEC decided to decrease their production. They are able to increase production again since the capacity is still there. Because of this decline, however, demand has surpassed supply and the western countries are consuming their own oil stocks to fill the gap. In the last quarter this event was reflected in higher oil prices. It can be solved by increasing production, but then the oil producing countries have to decide that they want to increase production.”

Can producing countries increase production? One of the questions that some analysts have is if OPEC is still able to increase production?

“Certainly on the short term OPEC will be able to increase production, one and a half years ago they were also able to decrease their production. But we also see that the demand will continue its increase in the long term. Not only in the western countries but also in other countries amongst which China and India. To meet this increasing demand we need more then the present spare production capacity, new production capacity needs to be developed for the oil markets. A large number of fields are under development, new fields are being discovered and developed. What we are concerned about is if these fields will be brought to the market in time, if sufficient investment is taking place in new production capacity. Currently we are not sure if this is the case, whether enough new oil fields are being developed to meet demand.”

Are you optimistic about the oil market?

“The IEA is not optimistic. We see a gap developing in the future between demand, if nothing is

done to curtail demand, and production. So something has to happen, either more investment in production or more investment in substitution for oil or the curtailment of demand. All these three things will probably happen at the same time. Such developments don't happen on their own, it can very well be that this is going to hurt. Meaning that we are going to enter a period wherein oil prices are quite a bit higher, possibly even higher than today's near all time high price, before we have found new solutions. If your question refers to the optimistic stance that it will all be fine, then I am not optimistic."

Who is going to feel the largest impact of the problems on the oil market, are these the poor countries?

"It is sad to say but this will be the case, the western countries have become so rich that we are nearly not impacted at all by high oil prices. Only now the oil price is nearing 100 dollars per barrel we are seeing a demand reaction, but this is only a very modest reaction. At the same time the national budget of developing countries is more and more dominated by energy costs. And these countries want to grow and economic growth is always paired with growth in the consumption of energy. So such countries will be hit much harder than we in the west will be."

When are we going to see in your view that factories will stop production because there no longer is any fuel available?

"Not, this is not going to happen. In this sense I am optimistic. Humanity has always been intelligent enough to find solution when new challenges come forth. Possibly we will have difficulties muddling through, but not in the sense that a crunch is going to occur in which factories will have to stop production."

You are familiar with the phenomenon of peak oil, what is your view on this?

"The theory of Peakoil says that we have currently used about half of the oil production that is available under ground. That implies that we can no longer produce more than we are currently doing, and that oil production is going to drop sooner than later. At the IEA we do not believe this, we think that we know that we are still not nearly halfway, that there are plenty of reserves underground in areas where little to no oil exploration has taken place. Until now oil companies have only searched in areas where oil was relatively simple to find. Now we are looking for oil at increasingly greater depths in the oceans and more and more at northern locations above Russia. Oil is still being found at the moment, and we can continue to find oil for a long time to come."

It does seem to become a race against the clock though, which will eventually on the long term be lost.

"On the long term oil will run out, it is a finite resource. So on the long term we need to shift to different energy sources. The question is whether we have sufficient time to switch to energy sources such as sustainable energy, solar energy. For the time being we should maybe also use more nuclear energy. One can call that a running match, a race against the clock. Will we have other sources of energy in time before oil runs out? What we say is that this will not happen as quickly as the peak oil theory which you are talking about predicts. The IEA thinks that we have more time. This does not mean that we do not need to worry, as I just explained, a shortage of oil is looming on the horizon."

Not so long ago large adverts have been published by a number of large oil companies in all financial newspapers in the world. Didn't it become clear from these that we have consumed the first half of oil reserves already and that the second half will be consumed in the next 30 years?

"These adverts were published by one oil company, other oil companies have a different take on the situation, they are more optimistic. It is of course about the entire picture. If one looks at

western oil companies, their supplies are decreasing. These companies are not always allowed to areas where there still is a lot of oil, the Middle-East and Russia, to look for new reserves. So specifically for that oil company, or specifically for the Western countries we are already more or less at the plateau of maximum production. All that we need in additional supplies needs to come from either the Middle East or Russia.”

Isn't it dangerous for the IEA to anticipate on oil discoveries that have not yet been made?

“This is an experience that has been built up as time passed from which we have learnt that when new areas are being explored more oil will be found. So far this has been proven to be the case. In the eighties we have started to search for oil in the North Sea, there we found oil at locations of one hundred to two hundred meters deep. At the time that was called non-conventional oil. Nowadays it is very normal to search for oil at such depths, even a depth of one thousand meters is considered as normal. Oil companies are now searching for oil at a depth of three thousand to four thousand meters on the bottom of the ocean, and even there large oil fields are being found. So a lot of locations have not yet been explored, and at these oil can still be found.”

But, isn't it true that in any case whether we find new oil fields at a depth of 3000 to 4000 meters or not, that a shortage will occur and that prices on overall will rise?

“Yes this will inevitably happen. Not only because of a shortage but also because it is simply to expensive to find oil at such depths. So an oil company will only do so if it is rewarded with a firm price for their oil. And then we are no longer talking about the 10 to 20 dollar oil of which we spoke about six years ago. This means talking about the 60 to 70 dollar oil that is needed to develop such risky projects.”

The oil price has already reached 90 to 100 dollars per barrel?

“On this price there is a premium that is to our opinion caused by a temporary scarcity of oil. It is not the structural oil price that is needed to bring new projects to the market.”

So the price increases of late is the work of speculators on the market?

“That's what is being said, I think that this is correct. But only under the present conditions that makes it possible to speculate due to the artificial shortage on the market that has been caused by OPEC. By brining insufficient production to the market. “

And this artificial shortage is caused by insufficient dollars?

“Well I can not peer into the minds of OPEC and what they are envisioning by creating an artificial shortage. If we look at the latest remarks, and believe those, then we see that OPEC is also not that happy with the high oil price of today. What we are now seeing for the first time is that in the past quarter the worldwide demand for oil is falling. This is not what OPEC was expecting and also the IEA did not expect this to happen. But this is the effect of the high oil price and I cannot imagine that OPEC is happy with this situation. That the worldwide demand for oil starts to decrease. Because in the end they still have a lot of oil that they want to produce and sell. At these prices people will start to drive more sparingly, start to drive less, and look for alternatives for oil. Maybe much faster than OPEC itself would want.”

Your function is head of crisis management, when is a crisis occuring according to the IEA?

“If there is a sudden shortage of oil, that is different from the situation that we just spoke about which can be described as a gradual mismatch between supply and demand. We call something a crisis if there is an incident or war or something somewhere that causes a significant temporary

shortage of oil. In such a situation we have mechanisms, especially strategic oil stocks that can be brought to the market to meet the difference between supply and demand. Depending on the size of such a shortage the gap can be filled for a year, or maybe two years. In anyway there is quite substantial amount of oil stored in strategic oil stocks. But insufficient to fill a gap between supply and demand for years and years. That is why in the case of a gradual mismatch of supply and demand these stocks will not be used."

As the oil price rises and the energy hunger of the large powerful countries increases, we see that these countries are increasing their aggressive stance. How do you see Europe maintaining itself in such a world?

"Energy politics are of all ages. That energy politics and geo politics have always been intertwined. A wonderful book has been written about this that described that at the end of the 19th century this was already the case, and that the 1st and 2nd world war were finally decided because of energy availability. At the moment, for Europe specifically we still have quite a substantial amount of natural gas but not so much oil anymore. The North Sea is depleted which implies that we need to import more from outside of Europe. In itself this is not bad at all, world trade exists simply due to the fact that one product moves from place A to B. In the Netherlands we also no longer grow coffee but we still drink it. So there is no real basis for concern, where we do have to invest in though is good relations with countries where there is still energy. And for Europe there is certainly a role to play in the direction of Russia, the Caspian Countries and the Middle East. To make sure that our relationships with these countries are good and being looked after."



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